

Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Notice of Market-Dominant : Docket No. R2017-1
Price Adjustment :

COMMENTS OF THE GREETING CARD ASSOCIATION

The Greeting Card Association (GCA) files these Comments pursuant to Order No. 3565. GCA comprises about 200 greeting card publishers and related enterprises and is the only industry association which represents the interests of the individual household mailer.

In this proceeding, GCA is not raising cap compliance issues. We do, however, wish to bring to the Commission's attention a structural issue which should be considered in the near future – perhaps in the upcoming Annual Compliance Review, or through a public inquiry or other appropriate Commission process.

Background. In Docket R2013-10, the Postal Service introduced, in Single-Piece First Class, a rate differential between Stamped and Metered Letters.¹ This differential has in the past varied between a half-cent and one cent, and in this case, given the proposed half-cent increase in the differential and a two-cent rise in Stamped Letters, would become three cents. It appears to have become a permanent part of the rate schedule.

The Postal Service presented the Metered Letter rate as a promotion, which was also expected to reduce its own costs. Its promotional object was to motivate small and

¹ Metered Letters, for purposes of the differential, comprise all single-piece letters except those paid with un-canceled stamps or PVI indicia. See Docket R2013-10, *United States Postal Service Notice of Market-Dominant Price Adjustment* ("R2013-10 Notice"), p. 18.

medium-sized businesses to convert from stamps to meters. This promotional purpose remains prominent today.²

While the Postal Service has pointed to potential cost savings, it has not (or at least not publicly) quantified them, nor has the differential itself ever been spoken of as a workshare discount or presented as satisfying the requirements of 39 U.S.C. sec. 3622(e). Some of the cost-saving potentials the Service pointed to when introducing the differential scarcely fit the normal understanding of worksharing (e.g., reduced potential for revenue loss due to theft of stamps).

The Second Role of the Metered Letter Rate. The Metered Letter rate has another function, however: it provides the starting point for development of Presort rates. In this Docket, the Service states that “[a]mong other benefits, this [i.e., the differential] has allowed the Postal Service to establish a more accurate benchmark for calculating costs avoided by presort First-Class Mail.”³

Since the Commission has established metered letters as the cost benchmark for Presort rates, it is reasonable to believe that a separation of these from non-metered letters, as a classification and rate matter, might make this cost-finding exercise more effective. But the relevant purpose there is to establish a *cost* difference, whereas the Metered Letter *rate* is also the starting point for constructing Presort *rates*.

If there were still only one rate for Single-Piece Letters, as was the case when the Commission adopted the metered letters benchmark in Docket RM2010-13 (Order No. 1320), this benchmarking process would be straightforward. Avoided cost would be computed starting from the benchmark, for the least finely sorted category, and so on down, ladder fashion, to the most finely sorted. The savings so computed then would (ideally⁴) be subtracted from the Single-Piece rate.

Since the rationale of workshare discounts is to provide a mailer who realistically can choose between workshared and non-workshared services with a means of decid-

² *United States Postal Service Notice of Market Dominant Price Adjustment* (“R2017-1 Notice”), p. 17.

³ *Id.*, p. 16.

⁴ That is, leaving aside the possibility that a sec. 3622(e) exception applies, or that the deviation from full passthrough is too small to be troublesome.

ing on the basis of price, we naturally use the Metered Letter rate as the non-workshared term of that comparison. As matters stand now, however, the Metered Letter rate from which Presort rates are calculated is a promotional rate which has varied significantly, in its relation to the Stamped Letter rate, since it was instituted. This means that Presort rates have also varied, for reasons unconnected with actual cost avoidance, and in the present Docket are evidently a half-cent lower than would be the case but for the doubling of the existing promotional rate break.

This state of affairs has consequences elsewhere in First Class. If the Metered Letter differential is increased, as in this Docket, Presort rates automatically decline as well. Single-Piece stamped letters bear more of the revenue burden as a result: in this case, a two-cent increase (2.028 percent) while the Metered Letter rate and Presort rates as a group decline slightly.

Is the Metered Letter Promotion a Suitable Driver of Presort Rates? The issue here is not whether Presort rates should be based on the Metered Letter rate; clearly they must be. The problem becomes evident when we look at the rationale of the Metered Letter rate and how it came to be what it is.

That the price from which Presort rates are calculated is one set significantly for promotional – rather than strictly cost-oriented – reasons seems to be a questionable situation – unless, possibly, the promotion's benefits to the Postal Service and the general mailing community were sufficiently large. This suggests that an inquiry to the results (so far) of the promotion would be in order.

The Promotion Does Not Appear to Have Succeeded. First, it is worth recalling how the Postal Service explained the introduction of the Metered Letter rate:

. . . Senders of metered letters are generally small to medium-sized businesses; whereas, stamped letters are generally sent by individuals or small businesses. *The purpose of introducing a relatively lower metered rate is to encourage small businesses to convert from using stamps to meters*, thus fostering a more consistent use of the postal system for the transmission of outgoing messages and to grow their mail volume in the long run. Experience from foreign posts suggests that having a special meter rate encourages meter use for correspondence, transactional and/or marketing-related communication. This, in turn, also

results in: (1) customer convenience and productivity gains for mailers, particularly small and mid-size businesses; (2) operational savings for the Postal Service because there is less need for stamp production and less costs incurred for distribution and cancellation; (3) lower postal revenue-protection risk associated with theft of stamps; and (4) more cross-selling opportunities. . . .^[5]

The R2013-10 rates became effective in January 2014, and thus were in use during a large part of FY 2014. The trend in Metered Letter volume between FY 2013 and FY 2014 is therefore relevant.⁶ In examining it, we excluded Permit Imprint letters, because a mailer large enough to be using Permit Imprint mail most probably has at least one meter already, making the conversion incentive irrelevant. “Metered Letters,” for our purposes, thus comprises metered, IBI, and “other” letters – the last on the assumption that much or most of this mail bears PC postage. The FY 2013 – FY 2014 volume trend shows substantial declines for Metered Letters – greater, in fact, than for Stamped Letters. In the tables, mail not eligible for the Metered Letter rate is shown in *italics*.

TABLE A – FY 2013 to FY 2014

CATEGORY	FY 2013 (000)	FY 2014 (000)	PCT CHANGE
Meter Letters	252,632	147,521	- 41.61%
IBI Letters	8,259,171	7,677,143	- 7.05%
Other Letters	43,103	33,871	- 21.42%
<i>Stamped Letters</i>	<i>11,659,240</i>	<i>11,444,020</i>	- 1.85%
<i>PVI Letters</i>	<i>73,816</i>	<i>71,737</i>	- 2.82%
Metered-Eligible Total	8,554,906	7,858,535	- 8.14%
Total	20,287,962	19,374,292	- 4.50%

The trend between FY 2014 and FY 2015 is similar, though even more striking:

⁵ R2013-10 Notice, p. 20 (*italics added*).

⁶ Data in these tables are taken from the Postal Service’s *RPW by Weight Increment, Shape and Indicia* reports for the relevant years.

TABLE B – FY 2014 to FY 2015

CATEGORY	FY 2014 (000)	FY 2015 (000)	PCT CHANGE
Meter Letters	147,521	77,603	- 47.40%
IBI Letters	7,677,143	6,314,882	- 17.74%
Other Letters	33,871	20,979	- 38.06%
<i>Stamped Letters</i>	<i>11,444,020</i>	<i>11,520,716</i>	<i>+ 0.67%</i>
<i>PVI Letters</i>	<i>71,737</i>	<i>64,201</i>	<i>- 10.51%</i>
Metered-Eligible Total	7,858,535	7,858,535	- 18.39%
Total	19,374,292	19,374,292	- 7.10%

In view of the increasing dominance of IBI indicia, sharp declines in (non-IBI) meter letters are perhaps to be expected. But the two other Metered Letter categories have also declined faster – in some cases much faster – than Single-Piece letters a whole.

Stamped Letters exhibited the smallest decrease (1.85 percent) from FY 2013 to FY 2014, and actually increased slightly from FY 2014 to FY 2015.

These results raise substantial questions as to whether the Metered Letter differential has in fact brought about any significant conversion from stamps to meters, or has either preserved or increased volume sent by the targeted small or mid-size (business) mailers.

Why the Answer Matters. It might be argued that as long as mail sent at the Metered Letter rate covers attributable costs and contributes to institutional costs, we should not be overly concerned with the volume and/or cost-saving effects – or lack of them – of offering that rate. The problem, however, is that sacrificing revenue via the differential (and, perhaps much more significantly, through its effect in depressing Pre-sort rates) means that, for a given First-Class revenue target, stamped letters must make up the difference.

This situation should concern the Commission for at least two reasons. First, sec. 3622(b)(5) requires that the ratemaking system provide adequate revenues for the Postal Service. If a promotional rate fails to elicit an increase in the targeted volume, as this one seems to have done, then revenue is being given up for no countervailing fi-

nancial gain. The same is true, in its degree, if the promotion fails to preserve volume likely to be lost without it. The RPW volumes charted above suggest that at least the first situation, and perhaps both, may be occurring.⁷ To sacrifice revenue in this way runs counter to the purpose of Objective (b)(5).

Secondly, sec. 3622(b)(8) calls for establishment and maintenance of a just and reasonable rate schedule. In a situation where the Service's need for revenue motivates pricing close to or at the cap, a sacrifice of revenue in one part of First Class which necessitates an increased burden on another part could be justified – if at all – only in case the overall beneficial effect of the sacrifice outweighed the revenue loss. The volume data charted above suggest that here it does not. Thus the situation we have outlined also raises the question whether the resulting First-Class rate schedule qualifies as a just and reasonable one.

Suggested Action(s). GCA recognizes that in R-cases the Commission does not normally undertake to decide issues falling outside the cap compliance rubric. In any case, the data most probably needed to resolve the questions raised above are not likely to turn up in the present record. Instead, we suggest that the Commission address these questions, and any others the facts we cite may suggest, either in the next annual compliance review or, as soon as practicable, in a separate Public Inquiry.

Questions the Commission could usefully address would include (without limitation): (i) whether the Postal Service has evidence that the Metered Letter promotion has had any positive effect on the relevant volume, (ii) whether it has evidence that it has allowed cost savings not already being captured, (iii) any indications of an increase in the proportion of mailers in the targeted group that have newly adopted meters and of how far the differential may have led them to do so, and (iv) the overall effect on First-

⁷ In our comments in Docket R2013-10, we raised the question whether the differential might in fact award a rate reduction to many mailers who were already metering their Single-Piece letter mail: they thus would see no incentive to increase their outgoing volume, and would not be generating additional cost savings with respect to their existing volume. See Docket R2013-10, *Comments of the Greeting Card Association*, pp. 5-8. So far as GCA is aware, this is still an open question. If it turned out that most or all of the Metered Letter rate benefit were accruing to mailers who had already converted from stamps, the differential would seem *not* to be advancing Objective (b)(1) (incentives to increase efficiency and reduce costs).

Class revenues, including Presort as well as the Single-Piece letters directly benefiting from the differential.

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Respectfully submitted,

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